

April 14, 2010

Our thoughts about earnings and the economy improving have been on track. While the S&P 500 is up 77.16% from its lows on March 13, 2009, you might not know it. The media continues to down play positive news like stronger consumer spending and better than expected unemployment numbers, with headlines that focus on "treading water" and "mixed reviews." Negativity seems to be in style this spring with some market pundits and media still suggesting we are entering into a double dip recession. We continue to feel this is not the case and the market will continue to be positive in 2010 as the economy gains strength.

First quarter earnings were positive for the market and our strategy; over 80% of McCullough's All Cap Value Composite holdings beat or were in line with their forecasted earnings report. We see the trend of strong earnings continuing through 2010, with some companies choosing to increase their dividends and buy back stock. The S&P 500 is up 5.35% in the first quarter this year with stronger 2nd quarter earnings forecasts.

Disarray in Washington has grabbed the attention of the nation and it is difficult to step outside without hearing one analyst or another talking about how much worse things will become if XYZ happens. The US is faced with high unemployment, the still unknown financial consequences of health care reform, and a real estate market in need of stabilization. Our strategy is positioned to work through these problems as we continue to invest in companies with solid management teams, strong financial positions, attractive valuations, and sustainable business models. Always we strive to stay true to our investment philosophy in even the most trying times.

Global growth has continued to be moderate although the headlines of Greek debt and potential ramifications for the European Union serve as a distraction. To put this in perspective, Greek GDP represents less than 1% of the world GDP, about 0.59% per the International Monetary Fund's 2008 estimates. Meanwhile, Asia maintains its positive growth with 2010 projections in the 8% range. Our focus globally will continue to be on gaining international exposure through the multi-national companies held in the portfolios.

"The key to making money in stocks is not to get scared out of them." ~Peter Lynch

McCullough agrees with Peter Lynch's statement and remains committed to our investment strategy. Now is a critical time to remember your long term strategy and not be tempted to deviate from your plan due to anxiety. As always, we thank you for your continued confidence in our investment approach and management of your financial future.

McCullough & Associates LLC